

Message Text

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INFO OCT-01 EA-11 ISO-00 AID-20 CEA-02 CIAE-00 COME-00

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TAGS: EFIN, OECD

SUBJECT: COMMITTEE ON FINANCIAL MARKETS MEETING, MARCH, 1974

REF: (A) CMF(74)2

(B) CMF(74)3

(C) CMF(74)4

(D) CMF(74)6

(E) CMF(74)7

(F) CMF(73)9

(G) CMF(74)8

(H) CMF(74)8 (1ST REV. & CORRIG.)

(I) CMF(74)11

(J) CFA(73)12

(K) CMF(74)1

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KL) CMF(74)9

(M) CMF/A(74)1

1. SUMMARY: COMMITTEE ON FINANCIAL MARKETS (CMF) MET MARCH 4-5 FOLLOWED BY RESTRICTED MEETING WITH BANKERS MARCH 6 (REPORTED SEPTEL). MAIN CONCLUSION CMF DISCUSSION OF FINANCIAL ISSUES WAS THAT DURING 1974 MARKETS PROBABLY ABLE TO RECYCLE OPEC FUNDS WITHIN OECD AS NEEDED, BUT IN LONGER RUN CREDIT-WORTHINESS OF BORROWERS MAY BECOME KEY PROBLEM. CMF AVOIDED DISCUSSING POLICY ISSUES BEING HANDLED ELSEWHERE AND MADE NO RECOMMENDATIONS ON OIL-RELATED QUESTIONS. RECENT EASING OF CAPITAL CONTROLS WAS WELCOMED, ALTHOUGH SOME COUNTRIES INDICATED THEY WOULD REIMPOSE INFLOW CONTROLS IF LARGE VOLUME OF FOREIGN FUNDS BEGAN FLOWING INTO THEIR MARKETS. INTEREST RATES, ESPECIALLY LONG-TERM, WERE GENERALLY EXPECTED TO REMAIN HIGH, ALTHOUGH SOME DELS NOTED OVERALL EFFECT OF OIL SITUATION SHOULD INCREASE SUPPLY INVESTIBLE FUNDS AND FAVOR DECREASE IN COST OF CAPITAL. MOST AGREED THAT MAJOR EFFECTS OF OIL PRICE RISE HAVE NOT YET BEEN FELT ON FINANCIAL MARKETS, AND THAT INVESTMENTS BY ARAB OIL PRODUCERS WERE LIKELY TO SHOW, FOR FORESEEABLE FUTURE, CHARACTERISTIC PREFERENCE FOR LIQUID SHORT-TERM ASSETS IN EURODOLLARS. ACTION REQUESTED: CMF AGREED TO FORWARD REFS D, E, F, H AND I TO COUNCIL; SEE PARAS 9B, AND D AND E BELOW. END SUMMARY.

2. FINANCIAL MARKET DEVELOPMENTS AND IMPLICATIONS OF RISE IN OIL PRICES: TRADITIONAL TOUR D'HORIZON (BASED ON REF A) WAS DIFFICULT TO SEPARATE FROM DISCUSSION ON IMPACT INCREASE IN OIL PRICES ON CAPITAL MARKETS (BASED ON REF B). CHAIRMAN (LIEFRINCK) ADVISED CMF TO AVOID GETTING INTO THE PROVINCE OF OTHER GROUPS DISCUSSING OIL SITUATION. BALANCE OF PAYMENTS EFFECTS BEING STUDIED IN WP3 AND DOMESTIC POLICY IMPLICATIONS BY EPC. FURTHERMORE, POSSIBILITIES FOR SPECIAL INTER-GOVERNMENTAL AND INTERNATIONAL INSTITUTIONAL ARRANGEMENTS FOR RECYCLING WERE BEING DISCUSSED IN IMF AND ELSEWHERE. SAME POINT STRESSED BY U.S. (KORP), WHO ALSO NOTED THAT IT WAS ESPECIALLY INAPPROPRIATE FOR CMF TO DISCUSS POLICY ALTERNATIVES TO BORROWING TO FINANCE CURRENT LIMITED OFFICIAL USE

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ACCOUNT DEFICITS, AS SUGGESTED BY SECRETARIAT IN REF B. THERE WAS GENERAL AGREEMENT CMF SHOULD AVOID EXTRANEIOUS POLICY QUESTIONS AND RECOMMENDATIONS AND RATHER CONCENTRATE ON FACTUAL SITUATION AND ON EFFECTS THAT INCREASE IN OIL PRICES LIKELY TO HAVE ON INTERNATIONAL AND NATIONAL FINANCIAL MARKETS.

3. THERE WAS UNANIMOUS VIEW THAT INCREASE IN OIL PRICES

HAD NOT YET HAD APPRECIABLE EFFECT ON MARKETS, IN SENSE OF EVIDENCE OF SHARPLY RISING ACCUMULATION OF SHORT-TERM DEPOSITS OR OTHER ASSETS BY OIL PRODUCING COUNTRIES. SUCH EFFECTS WILL PROBABLY SHOW BY MID-SPRING. WHILE THERE WAS CONSIDERABLE DISCUSSION OF ABFORPTIVE CAPACITY OF INDIVIDUAL MARKETS, INCLUDING U.S. MARKET, CHAIRMAN SUMMARIZED EXCHANGE OF VIEWS AS INDICATING CONSIDERABLE CONFIDENCE THAT DURING 1974 PRIVATE PARKETS WILL BE ABLE TO ABSORB AND, AS NECESSARY, RECYCLE FUNDS SO AS TO ACCOMMODATE INVESTMENT NEEDS OF OIL PRODUCERS AND BORROWING NEEDS OF OECD DEFICIT COUNTRIES. IT WAS RECOGNIZED THAT NON-CREDITWORTH LDC'S REPRESENTED SPECIAL PROBLEM.

4. U.S. REP NOTED THAT ELIMINATION U.S. CAPITAL CONTROLS SHOULD BE HELPFUL IN ENABLING FINANCIAL MARKETS TO HANDLE RECYCLING TASK, ESPECIALLY SINCE IT WOULD LEAD TO CLOSER LINKAGE BETWEEN U.S. AND EURODOLLAR MARKETS. CHAIRMAN AND SECRETARIAT WELCOMED TERMINATION OF U.S. CAPITAL CONTROLS AND LOOSENING OF RESTRICTIONS ON CAPITAL INFLOWS BY SEVERAL OTHER COUNTRIES. MOST OTHER CMF MEMBERS FELT THESE ACTIONS APPROPRIATE, ALTHOUGH GERMAN, JAPANESE, AND DUTCH DELEGATES INDICATED THEIR COUNTRIES LIKELY TO RESORT TO CAPITAL CONTROLS IF INFLOW OF FOREIGN FUNDS REACHED PROPORTIONS EXCEEDING BALANCE OF PAYMENTS NEEDS OR INTERFERRING WITH INTERNAL MONETARY POLICY.

5. CONSENSUS WAS THAT ARAB OIL COUNTRIES HAVE STRONG PREFERENCE FOR SHORT-TERM, LIQUID DOLLAR INVESTMENTS IN EUROMARKET. MOST EXPECTED THAT OECD GOVERNMENTS WITH BORROWING NEEDS TO FINANCE CURRENT ACCOUNT DEFICITS CAUSED BY RISING OIL PRICES WOULD BE ABLE TO OBTAIN FUNDS THROUGHOUT 1974, EITHER THROUGH DIRECT INTERMEDIATION LIMITED OFFICIAL USE

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FROM EURODOLLAR MARKET OR THROUGH SECONDARY INTER-MEDIATION IN U.S. MARKET. AS TIME PROGRESSES, HOWEVER, PROBLEM OF BORROWERS' CREDIT-WORTHINESS MAY BECOME CRITICAL. GERMANY AND NETHERLANDS SUGGESTED THEIR RECYCLING TASK, ESPECIALLY SINCE IT WOULD LEAD TO CLOSER

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LINKAGE BETWEEN U.S. AND EURODOLLAR MARKETS. CHAIRMAN AND SECRETARIAT WELCOMED TERMINATION OF U.S. CAPITAL CONTROLS AND LOOSENING OF RESTRICTIONS ON CAPITAL INFLOWS BY SEVERAL OTHER COUNTRIES. MOST OTHER CMF MEMBERS FELT THESE ACTIONS APPROPRIATE, ALTHOUGH GERMAN, JAPANESE, AND DUTCH DELEGATES INDICATED THEIR COUNTRIES LIKELY TO RESORT TO CAPITAL CONTROLS IF INFLOW OF FOREIGN FUNDS REACHED PROPORTIONS EXCEEDING BALANCE OF PAYMENTS NEEDS OR INTERFERING WITH INTERNAL MONETARY POLICY.

5. CONSENSUS WAS THAT ARAB OIL COUNTRIES HAVE STRONG PREFERENCE FOR SHORT-TERM, LIQUID DOLLAR INVESTMENTS IN EUROMARKET. MOST EXPECTED THAT OECD GOVERNMENTS WITH LIMITED OFFICIAL USE

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BORROWING NEEDS TO FINANCE CURRENT ACCOUNT DEFICITS CAUSED BY RISING OIL PRICES WOULD BE ABLE TO OBTAIN FUNDS THROUGHOUT 1974, EITHER THROUGH DIRECT INTERMEDIATION

FROM EURODOLLAR MARKET OR THROUGH SECONDARY INTER-MEDIATION IN U.S. MARKET. AS TIME PROGRESSES, HOWEVER, PROBLEM OF BORROWERS' CREDIT-WORTHINESS MAY BECOME CRITICAL. GERMANY AND NETHERLANDS SUGGESTED THEIR MARKETS COULD BECOME ATTRACTIVE FOR AUTONOMOUS CAPITAL INFLOWS. THERE WAS NO STRONG SENTIMENT IN FAVOR OF QUEUEING OR OTHER INTERGOVERNMENTAL EFFORTS TO AVOID MARKET "CONGESTION" BY COMPETING BORROWERS. U.S. (PARTEE) MADE STRONG STATEMENT THAT SELECTION FUNCTION SHOULD BE LEFT TO PRIVATE INTERMEDIARIES IN MARKETS.

6. CMF DECIDED ON NO SPECIFIC ACTIONS OR RECOMMENDATIONS WITH RESPECT TO CONSEQUENCES OF OIL SITUATION ON INTERNATIONAL AND DOMESTIC FINANCIAL MARKETS, BUT AGREED TO KEEP SITUATION UNDER REVIEW. DUTCH DELEGATE RAISED QUESTION OF INSTALLING "EARLY WARNING SYSTEM" WHEREBY GOVERNMENTS COULD EXCHANGE PROMPT INFORMATION ON TRENDS IN VOLUME AND SOURCE OF FOREIGN CAPITAL INFLOWS OR BORROWING. GERMAN DELEGATE WENT FURTHER IN SUGGESTING THAT CMF PREPARE PERIODIC "FINANCIAL OUTLOOK" TO BE PUBLISHED BY OECD SIMILAR TO PERIODIC "ECONOMIC OUTLOOK." (THERE WAS MUCH OPPOSITION TO ANY PUBLICATION OF CMF DISCUSSIONS THAT COULD INHIBIT FREE EXCHANGE OF VIEWS.) U.S. SUGGESTED THAT PROMPTLY PREPARED, PERIODIC DATA ON VOLUME OF TRANSACTIONS AND INTEREST RATE DEVELOPMENTS ON EUROBOND, EUROPEAN AND NATIONAL MARKETS, SUCH AS SECRETARIAT NOW INCLUDES IN TOUR D'HORIZON PAPER, WOULD BE VALUABLE TO HAVE UPDATED AND CIRCULATED TO GOVERNMENTS BETWEEN CMF MEETINGS. CMF MADE NO SPECIFIC DECISIONS ON DATA QUESTIONS AND SECRETARIAT NOTED ITS RESOURCES VERY LIMITED FOR NEW TASKS AT LEAST DURING CURRENT YEAR.

7. DISCUSSION ON INTEREST RATE DEVELOPMENTS AND TRENDS SHOWED POSSIBLE INCONSISTENCY BETWEEN EXPECTATIONS OF MOST INDIVIDUAL COUNTRIES THAT INTEREST RATES LIKELY TO REMAIN HIGH IN THESE MARKETS AND OBSERVATION BY SOME DELEGATES THAT OVERALL EFFECT OF OIL SITUATION SHOULD INCREASE SUPPLY INVESTIBLE FUNDS AND FAVOR DECREASE IN LIMITED OFFICIAL USE

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COST OF CAPITAL. U.S. (PARTEE) SUGGESTED, AS RECONCILIATION THESE VIEWS, THAT IF OIL PRODUCERS INVEST MAINLY IN SHORT-TERM ASSETS, RESULTING SITUATION SHOULD GENERALLY LEAD TO DOWNWARD PRESSURE ON SHORT-TERM RATES AND UPWARD PRESSURE ON LONG-TERM RATES. HE ALSO NOTED THAT LAST YEAR'S TWIST EFFECT HAD BEEN REVERSED BY EARLY 1974, WITH SHORT-TERM RATES NOW AGAIN BELOW LONG-TERM RATES IN U.S. HOWEVER, HE FELT THAT ANY CONJECTURE ON FUTURE INTEREST RATE TRENDS WOULD BE EVEN MORE HAZARDOUS THAN USUAL. CONTINUE UPWARD PRESSURE ON LONG-TERM RATES

COULD RESULT FROM HEAVY BORROWING BY CORPORATIONS DUE TO CAPITAL SPENDING AS WELL AS DESIRE TO RESTRUCTURE DEBT AFTER HEAVY SHORT-TERM BORROWING IN 1973, FROM INFLATIONARY FACTORS AND FROM PROSPECT OF MORE FOREIGN BORROWING IN U.S. LONG-TERM MARKETS. OFFSETTING THIS TENDENCY MIGHT BE DECREASE IN DEMAND FOR FUNDS IN CERTAIN SECTORS SUCH AS HOUSING AND CONSUMER CREDIT. THERE MIGHT BE DOWNWARD PRESSURE ON SHORT-TERM RATES PARTICULARLY IF LARGE SUPPLY IN EUROMARKET SHOULD SPILL OVER INTO U.S. DOMESTIC MARKET THROUGH BANKING INTERMEDIATION (E.G. HEAD OFFICE BORROWING FROM LONDON BRANCHES). IN GENERAL, THERE WOULD BE MORE CORRESPONDENCE BETWEEN EURODOLLAR INTEREST RATES AND U.S. INTEREST RATES, ESPECIALLY IN LONG-TERM AREA.

8. GERMAN REP INDICATED TREND IN GERMAN RATES IS UPWARD AND BUNDESBANK EXPECTS TO CONTINUE RESTRICTIVE POLICY. SWISS REP NOTED UPWARD TREND SINCE LAST AUGUST WITH BOND RATE UP TO 6-3/4 - 7 PERCENT, WHICH IS UNUSUALLY HIGH FOR SWITZERLAND. DEMAND IS COMING MAINLY FROM GOVERNMENT DEFICITS AND FROM INVESTMENT NEEDS FOR NUCLEAR ENERGY INSTALLATIONS. U.K. REP EXPECTED LONG-TERM RATES TO STAY HIGH DUE INFLATION AND GOVERNMENT BORROWING REQUIREMENTS. SHORT-TERM RATES ARE MORE UNDER CONTROL AND AUTHORITIES WOULD LIKE TO REDUCE SHORT-TERM RATES PARTICULARLY TO ATTRACT FUNDS TO BUILDING SOCIETIES. SCOPE FOR DECLINE IN SHORT-TERM RATE IS LIMITED BY U.K.'S NEED TO KEEP ITS RATES ABOVE INTERNATIONAL SHORT-TERM RATES, BUT THERE IS SOME MARGIN FOR DOWNWARD ADJUSTMENT. FRENCH SAW NO REASON TO BELIEVE LONG-TERM RATES MIGHT NOT MOVE FURTHER UPWARD, WHILE SHORT-TERM RATES MIGHT REMAIN REASONABLY LIMITED OFFICIAL USE

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STABLE AT ROUGHLY 12-1/2 PERCENT.

9. OTHER AGENDA ITEMS:

(A) ELECTIONS: CHAIRMAN (LIEFRINCK-NETHERLANDS) AND TWO VICE-CHAIRMAN (PARTEE-U.S., EKLOF-SWEDEN) WERE REELECTED FOR 1974.

(B) HOUSING FINANCE: CMF APPROVED REFS D AND E ON TIME PATH PROBLEM OF HOUSING LOAN DEBT SERVICE AND SPECIAL CIRCUITS OF HOUSING FINANCE, WITH RECOMMENDATION TO COUNCIL THAT THEY BE DERESTRICTED AND PUBLISHED, ALONG WITH REF F ON HOUSING UNDER CONDITIONS OF FINANCIAL RESTRAINT. PUBLICATION WOULD NOT IMPLY ENDORSEMENT OF VIEWS BY MEMBER GOVERNMENTS. MISSION WILL APPROVE DERESTRICTION AND PUBLICATION ALL THREE REFS IN COUNCIL UNLESS OTHERWISE INSTRUCTED.

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(C) STANDARD RULES: CHAIRMAN (AMMERMAN) OF WG ON
STANDARD RULES FOR INSTITUTIONS FOR COLLECTIVE INVEST-
MENT (ICI) REPORTED ON WG REVIEW OF EXTENT TO WHICH
STANDARD RULES HAD BEEN IMPLEMENTED OR OTHERWISE TAKEN
INTO ACCOUNT BY MEMBER COUNTRIES. CMF AGREED THAT
SUBSTANCE OF STATUS REPORT SHOULD BE FORWARDED TO
COUNCIL AFTER REVISION BY SECRETARIAT IN LIGHT OF
DISCUSSION. RE QUESTIONS RAISED REF G: (1) CMF
SYMPATHETIC TO PERIODIC MEETINGS OF REPS FROM GOVERNMENT
OR PRIVATE AGENCIES CHARGED WITH ICI REGULATION.
SECRETARIAT WILL COMPILE LIST OF APPROPRIATE AGENCIES
AND INDIVIDUALS. CMF POSTPONED ANY DECISION ON INITIAL
MEETING OF SUCH A GROUP UNTIL SPRING 1975. (2) CMF
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SKEPTICAL AS TO PRESENT NEED FOR STANDARD RULES FOR NON-SECURITY FUNDS. (3) SOME SENTIMENT WAS EXPRESSED FOR PERIODIC REVIEW AND UPDATING OF STANDARD RULES ALTHOUGH MOST FELT MEMBER COUNTRIES NEED MORE EXPERIENCE WITH PRESENT GUIDELINES.

(D) ADMISSION OF SECURITIES: CMF APPROVED REF H CONTAINING THREE DRAFT RECOMMENDATIONS CONCERNING RESTRICTIONS ON UNLISTED SECURITIES (ANNEX II), DISCLOSURE REQUIREMENTS FOR PUBLICALLY-OFFERED SECURITIES (ANNEX III), AND REGULATIONS CONCERNING PUBLIC OFFER AND LISTING OF FOREIGN SECURITIES (ANNEX IV). ITALIAN REP INDICATED HIS GOVERNMENT UNABLE TO ACCEPT ANNEX II BECAUSE OF CONTINUED PROBLEM OF CAPITAL FLIGHT FROM ITALY. SPANISH REP UNABLE ACCEPT ANNEX II BECAUSE TAX AND OTHER REGULATIONS RE INSTITUTIONAL INVESTORS ARE ESTABLISHED ON BASIS THAT LISTED SECURITIES ARE OF BETTER INVESTMENT QUALITY; ACCEPTANCE OF ANNEX II WOULD BE TOO DISRUPTIVE IN PRESENT CONTEXT. CANADIANS NOTED POSSIBLE PROBLEM WITH ANNEX IV, SINCE SECURITY REGULATION IS PROVINCIAL RESPONSIBILITY IN CANADA. ALSO FELT PROPOSAL WOULD CAUSE LARGE ADMINISTRATIVE BURDEN FOR REGULATORS TO DETERMINE IF FOREIGN RULES ARE AS PROTECTIVE OF THE INVESTOR AS DOMESTIC RULES. CMF AGREED TO FORWARD REF H TO COUNCIL WITH MINOR CHANGES. MISSION WILL ACCEPT REF H IN COUNCIL UNLESS OTHERWISE INSTRUCTED.

(E) STATISTICS ON INTERNATIONAL SECURITIES: REF I WAS APPROVED ON BASIS OF SECOND OPTION AND WILL BE REVISED ACCORDINGLY. DATA-GATHERING SYSTEM WILL COMPILE FIGURES ON GROSS BASIS FOR PURCHASES AND SALES, WITH BREAKDOWN BETWEEN BONDS AND EQUITIES. MISSION WILL APPROVE REVISED REF I IN COUNCIL UNLESS OTHERWISE INSTRUCTED.

(F) TAXES ON ISSUE AND TRANSFER OF SECURITIES: CMF TOOK NOTE OF REF J, BUT PLANS NO FURTHER ACTION AT THIS TIME.

(G) FUTURE WORK PROGRAM: MEMBER SUGGESTIONS FOR FUTURE WORK PROGRAM (CONTAINED IN REF K) WERE DISCUSSED BRIEFLY. SECRETARIAT INDICATED IT WOULD BE UNABLE TO INITIATE WORK ON ANY ACTIVITIES IN 1974 OTHER THAN THOSE IN PRESENT WORK PROGRAM. SUGGESTIONS IN REF K WILL BE CONSIDERED AGAIN BY CMF FOR 1975 WORK PROGRAM. FOR LIMITED OFFICIAL USE

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REMAINDER OF 1974, CMF WILL CONCENTRATE ON: (1) IMPACT OF OIL PRICE RISE ON FINANCIAL MARKETS; (2) INTEREST

RATE DEVELOPMENTS, AND (3) STRUCTURAL DEVELOPMENT OF FINANCIAL INSTITUTIONS. RE WORKING GROUP ACTIVITIES, WG ON HOUSING IS EXPECTED TO COMPLETE ITS TWO PRESENT TASKS (ASSET AND LIABILITY STRUCTURES IN HOUSING FINANCING INSTITUTIONS, AND SECONDARY MORTGAGE MARKETS) BY END 1974 OR EARLY 1975. WG ON ADMISSION OF SECURITIES IS EXPECTED TO COMPLETE WORK DURING 1974 ON MINIMUM DISCLOSURE RULES FOR PUBLIC OFFER OF SECURITIES. CMF CHAIRMAN EXPRESSED STRONG VIEW THAT WG SHOULD CONCENTRATE ON PRINCIPLES RATHER THAN DETAILED GUIDELINES. THERE WAS NO DISCUSSION OF STATUS OF WORK ON MODEL FRAMEWORK FOR SELF-REGULATING SECURITY MARKET.

(H) NEXT MEETING SCHEDULED FOR JULY 4-5, 1974.

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